Hawaiian Electric Company, Inc. • PO Box 2750 • Honolulu, HI 96840-0001

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PUBLIC UTILITIES COMMISSION

Dean K. Matsuura
Manager
Regulatory Affairs

December 8, 2008

The Honorable Chairman and Members of the
Hawaii Public Utilities Commission
Kekuanaoa Building, First Floor
465 South King Street
Honolulu, Hawaii 96813

Dear Commissioners:

Subject: Docket No. 2008-0083 – HECO 2009 Test Year Rate Case
Replacement Pages for HECO T-10 Rate Case Update

Enclosed are replacement pages for Hawaiian Electric Company, Inc.'s ("HECO" or "Company") Rate Case Update for HECO T-10, filed on December 5, 2008.

Attachment 1 of the HECO T-10 update contains confidential employee information that was inadvertently not deleted in the original filing. Thus, HECO is re-filing this attachment with the confidential information deleted. Please replace the previously submitted Attachment 1 of the HECO T-10 update with the enclosed replacement page. The Company requests that the Commission, the Division of Consumer Advocacy, the Department of Defense, and their consultants return the previously submitted Attachment 1 of the HECO T-10 update (both paper and electronic versions) to HECO. Alternatively, please destroy the documents and certify their destruction as prescribed in paragraph 28 of the Protective Order filed on November 21, 2008 in this proceeding.

Also enclosed are replacement pages 1 to 11 of the HECO T-10 update. The pages filed on December 5, 2008 show an incorrect page total in the header. Please replace the previously filed pages with the enclosed replacement pages. The original pages will not have to be returned or certified that they were destroyed.

The Company apologizes for any inconvenience.

Very truly yours,

Dean K. Matsuura

Enclosures

cc: Division of Consumer Advocacy
Michael L. Brosch, Utilitech, Inc.
Joseph A. Herz, Sawvel & Associates, Inc.
Dr. Kay Davoodi, Department of Defense
Gayle B. Chestnut, Department of Defense
Ralph Smith, Larkin & Associates

CONFIDENTIAL EMPLOYEE INFORMATION DELETED

CHANGE IN PERSONNEL STATUS (Transfer/Promotion)

For HR use only
Entered In Ellipse: ____________

Employee ID: [redacted] Employee Name: [redacted] *Effective Date: **11/24/2008**

Company: HAWAIIAN ELECTRIC COMPANY Last Day on Payroll (For Terminations Only): ____________

*Employment Category: AF REGULAR FULL-TIME *Reason: TS TRANSFER[redacted]

	CURRENT	PROPOSED		CURRENT	PROPOSED
Position ID:	3752	5296	Bargaining Unit		
Job Code:	M219	J2616	Hourly Rate:		
Position Title:	MGR, CUSTOMER INSTALLATIONS	DIR, SPECIAL PROJECTS	[illegible]		
Department:	CUSTOMER INSTALLATION	VP CUSTOMER SOLUTIONS	Grade:		
Division:	ADMINISTRATION	CUSTOMER SOLUTIONS	Appr Trng Hrs Comp:		
*Mail Stop/Work Loc	WA4	CP10	Merit		
RA:	PWA	P1W	Roto:	ME	MF
*Reporting To:		David Waller	*Base Salary	[redacted]	[redacted]
Award Code:	MERE	MERR	Market:	127,900	109,900
Home Cost Center:	PWA098PHENDNPZZZZZZ	P1W098PHENDNPZZZZZZ	CTM:	[redacted]	[redacted]
*Labor Class:	E-W	F	Increase/Decrease:		[redacted]
*Primary Resource:		N/A	Variable Merit:	0	N/A
*WO Prefix:	CE	AD	Time Frame From:		N/A
*Roster Pattern:	DK5D	DK5D	Time Frame To:		N/A
*Roster Position:	0001	0001			

*JVR No: P2353 *Replacing: n/a

Comments: N/A

Proposed Salary Offer Summary (For Utility Company Merit Positions Only)

1st Line Supv Differential	no	5% + increase (approval)	N/A Date Approved: N/A
Highest Paid BU EE Supervised	Position: N/A Rate: N/A	Interim Increase (added to base)	Explanation: n/a
Development Plan	Explanation: n/a	May Merit	Explanation: [redacted]
Entry-level Engineer Plan	Explanation: n/a	September Market Adjustment	Explanation: n/a
Signing Bonus (one time only - not in base)	Amount: 0 Charge#: n/a SS#: n/a	Relocation	Terms: n/a

OTHER: n/a

Reviewed by:

WSD CONSULTANT / DATE COMPENSATION / DATE

APPROVALS

SUPERVISOR / DATE DEPARTMENT MANAGER / DATE EXECUTIVE / DATE

11/25/2008 9:51:15 AM

RATE CASE UPDATE

Ref: Alan Hee, HECO T-10, Customer Service Expense, Demand-Side Management ("DSM") Programs, Customer Solutions Head Counts, and ECAC

Summary

The update for HECO T-10 consists of a number of adjustments related to the recent Hawaii Clean Energy Initiative ("HCEI") Agreement[1] and to the change in the test year sales estimate, which led to changes in the Company's generating and purchased energy economic dispatch. The updated test year Customer Service expense estimate is $7,079,000, an increase of $72,000 over direct testimony, as shown in the revised HECO-1001 on page 12. The identification of DSM and non-DSM portions of the Customer Service expense estimate is shown in the revised HECO-1002 on page 13. The updated expense estimate categorized by labor and non-labor components is shown in the revised HECO-1005 on page 14.

The adjustments related to the HCEI Agreement include:

1. The addition of a Director, Special Projects charged with the responsibility of developing the overall strategy to guide the Company's efforts to implement demand response programs identified in the HCEI Agreement to maintain system reliability as the amount of renewable energy increases. This results in an increase in the Customer Solutions process area headcount and is the only adjustment that results in a change in total test year Customer Service expense from direct testimony.
2. The addition of a Senior Rate Analyst and use of outside consultants who will be developing and implementing the additional work in the Pricing Division resulting from the HCEI Agreement. I support the need for the additional Senior Rate Analyst, the increase in the Customer Solutions process area headcount, and the increase in

[1] The HCEI Agreement was signed on October 20, 2008 by the Governor of the State of Hawaii, the Consumer Advocate, the State Department of Business, Economic Development and Tourism, and the Hawaiian Electric Companies.

non-labor outside services for pricing consultants for the decoupling docket (Docket No. 2008-0274) and other pricing initiatives. The increased labor ($76,000) and non-labor expenses ($80,000) are captured under NARUC accounts 920 and 921, respectively, and are included in Ms. Patsy Nanbu's HECO T-11 rate case update. Therefore, test year Customer Service expense is not impacted by this new position or the outside consultants.

3. The addition of a SolarSaver Pilot Program Manager who will administer the expansion of the program on Oahu from 100 solar water heating system installations per year to over 1,900 installations per year, which is HECO's share of the increase to 2,500 annual installations for all HECO Companies as called for by the HCEI Agreement. This is a new HECO regular employee in an incremental position funded through the DSM surcharge. Therefore, the Customer Solutions process area headcount is initially increased by one to reflect the addition of a regular HECO position, but the headcount is subsequently reduced by one because this position will be funded through the DSM surcharge and not through base rates. This is reflected in Faye Chiogioji's T-15 rate case update. There is no impact on total test year Customer Service expense as the result of this new position. However, the new position does result in the reallocation of some labor expenses within the Customer Service block of accounts and is discussed later in this update.
4. The addition of a Customer Service Department representative to address the increased workload resulting from the expansion of the SolarSaver Pilot Program as provided for in the HCEI Agreement. I support the need for the representative. As with the SSP Program Manager, this representative's expenses will also be recovered through the DSM surcharge. The increase and subsequent removal of this headcount are discussed in the rate case updates covered by Mr. Darren Yamamoto in

HECO T-9 and Ms. Faye Chiogioji in HECO T-15, respectively. The headcount and expense for the Customer Service block of accounts is not impacted by this new position.

There is only one adjustment in HECO T-10 related to changes in HECO's generating and purchased energy economic dispatch. As discussed later, the ECAF at present rates has been decreased to 7.102 cents/kwh. The ECAF at proposed rates remains at 0.000 cents/kwh.

Director, Special Projects

The Director, Special Projects is a new HECO regular employee position that reports to the Vice President, Customer Solutions, and is responsible for developing the overall strategy to guide the Company's demand response strategy among the different areas of the Company. The requirements and the deadlines included in the HCEI agreement increase the scope, intensity, and complexity of work related to demand response as compared to work identified prior to the agreement. The HCEI Agreement requires the utilities to explore the use of demand response as a mechanism to accommodate more renewable energy and to manage frequency fluctuations resulting from intermittent renewable resources connected to the grid, and provide a recommendation for such use to the Commission by December 31, 2009. The agreement also requires the utilities to allow demand response to provide a variety of ancillary services and encourage those demand-side ancillary services if they can be provided more precisely than supply-side resources.[2]

The implementation of effective demand response requires cross-functional and cross-departmental efforts. Demand response requires pricing, metering, enabling technologies such as thermostats and load control switches, identification of events requiring the activation of demand response, billing modifications and enhancements, event and data communications to internal departments, customers, and vendors, and program definition, assessment, evaluation, analysis,

[2] HCEI Agreement, Section 13, pages 23-24.

and reporting. For example, just as the development of the Dynamic Pricing Pilot Program required close coordinated efforts between the Energy Services, Customer Installation, and System Operation Departments, and the Customer Technology Applications and Forecast and Research Divisions on a smaller scale, the planning and implementation of additional full scale demand response programs will require similar coordination. The upcoming applications to renew the RDLC and CIDLC programs will benefit from the demand response coordinating efforts of the Director, Special Projects; especially as the Company moves closer to interim and full implementation of the Advanced Metering Infrastructure and the use of the FlexNet communications system. The RDLC and CIDLC programs currently rely on paging communications.

The Company has already filled the Director, Special Projects, position as of November 24, 2008 and that person has begun his planning efforts in the area of demand response. Attachment 1 is a copy of the Change in Personnel Status ("CPS") form. The test year Customer Service expense increases by $72,000 as shown in the revised HECO-1006 (for account code 909 only) on page 15. Non-labor overhead expenses ($27,000) have also been added to the appropriate NARUC accounts and are reflected in Ms. Patsy Nanbu's rate case rate case update for HECO T-11.

<u>Senior Rate Analyst</u>

The new Senior Rate Analyst is a new HECO regular employee position reporting to the Pricing Division Director. This Senior Rate Analyst is in addition to the Senior Rate Analyst position identified in HECO T-10.[3] This Senior Rate Analyst will have the same responsibilities as the position identified in direct testimony; namely, to provide supplemental policy direction and rate initiative coordination, and when required, support rate case efforts as either a rate case

[3] HECO T-10, page 9, line 2, to page 11, line13.

witness or as the person responsible for providing draft testimony, exhibits, workpapers, and IR responses.[4]

The new position is necessary to respond to the numerous rate initiatives resulting from the HCEI Agreement that cannot be addressed by the existing staff or by the Senior Rate Analyst identified in direct testimony due to the volume of work required. In direct testimony, the planned initiatives that the first Senior Rate Analyst would address included aggressive time-of-use rates, inclined block rates, dynamic program pricing, and green pricing. While these initiatives are identified in the HCEI Agreement, the following additional programs are also included (citations below refer to the HCEI Agreement):

- PV Host Program (Section 4, The Solar Opportunity, pages 11-13);
- Feed-in tariffs (Section 4, The Solar Opportunity, page 12; Section 7, Feed-In Tariffs, pages 16-17; and Section 19, Net Energy Metering, page 28);
- Revised net energy metering tariff (Section 4, The Solar Opportunity, page 12; and Section 19, Net Energy Metering, page 28);
- Time-of-use rates to encourage off-peak charging of electric vehicles (Section 10, Greening Transportation, pages 18-20);
- Interim time-of-use rates (Section 14, Advanced Metering Infrastructure, pages 24-25);
- Lifeline rates (Section 14, Advanced Metering Infrastructure, page 25; and Section 20, Lifeline Rates, page 29);
- Mandatory time-of-use rates (Section 15, Pricing Principles and Programs, pages 25-26);
- Revenue decoupling (Section 28, Decoupling from Sales, pages 32-33).

Many of these rate initiatives also have timelines, which means that the existing staff is limited in its ability to postpone work on some initiatives in order to complete others. Thus, the new Senior Rate Analyst position is directly related to the requirements of the HCEI Agreement.

Furthermore, the HCEI Agreement requires that the revenues of the utility be fully decoupled from sales/revenues beginning with the interim decision in the 2009 HECO Rate Case (most likely in the summer of 2009).[5] On October 24, 2008, the Commission opened a

[4] HECO T-10, page 59, lines 1-8.
[5] HCEI Agreement, Section 28, page 33.

Decoupling Docket (Docket No. 2008-0274). In preparation for the proceeding, HECO has hired a consultant to help with development and testing of various decoupling/attrition mechanisms, selection of a preferred mechanism suitable to HECO's cost structure and operating environment, and providing testimonial support in the docket, which will most likely be scheduled in the first half of 2009. Consultants for other pricing initiatives, such as lifeline rates and mandatory time-of-use rates, will also be needed. Therefore, HECO estimates that the cost for the consultants will add $200,000 in non-labor costs,[6] of which 80% will be charged to HECO and 10% each will be billable to HELCO and MECO.[7] HECO's share of the additional estimated outside services non-labor expense is $160,000.

HECO recognizes that this expense is a one-time expense and proposes to amortize it over two years. The two-year amortization period is based on the assumed adoption of revenue decoupling ratemaking, and an initial two-year rate case cycle for HECO, which would assume a subsequent rate case in 2011, two years after this 2009 rate case. Subsequent rate case cycles after the planned HECO 2011 rate case would be every 3 or 4 years. The shorter initial period between HECO's 2009 and 2011 rate cases is designed to stagger the HECO, MECO, and HELCO rate cases that follow the 2009 rate cases for all HECO Companies so that the subsequent rate cases do not fall on the same year. The result of applying the two-year amortization period to the additional non-labor decoupling consultant cost is that the additional test year non-labor cost is equal to $80,000.

Since the Pricing Division is in the Customer Solutions process area, the addition of this Senior Rate Analyst increases the Customer Solutions headcount by one. Approval to fill this position has been received and it is currently in recruitment. Attachment 2 is the Job Vacancy

[6] The $200,000 is an internal HECO estimate consisting of $100,000 for the decoupling consultant, and $100,000 for other consultants to assist with other pricing initiatives such as lifeline rates and mandatory time-of-use rates.

[7] The allocation among the HECO Companies is based on 2006 Kwh sales which were: HECO (7,701 GWh, 76.1%), HELCO (1,149 GWh, 11.4%), and MECO (1,266 GWh, 12.5%). The percentages were rounded to 80/10/10 to simplify the allocation.

Notice ("JVN") posted for this position. It will also be posted in the Honolulu Advertiser on Sunday, December 7, 2008. HECO expects that the new position will be filled by January 2009. This new position does not impact the test year Customer Service expense estimate. The additional labor and non-labor charges are included by Ms. Nanbu in the rate case update to HECO T-11.

<u>SolarSaver Pilot Program Manager</u>

The SolarSaver Pilot Program Manager is a new HECO regular employee position that reports to the Director, Customer Efficiency Programs, and is responsible for overall administration of the expanded SolarSaver Pilot ("SSP") Program. The SSP Program provides residential customers with an opportunity to have a solar water heating system installed with no upfront cost. The customer pays for the solar water heating system through monthly payments via the electricity bill at payment levels that are designed to be lower than the savings resulting from the new installation. Thus, the participating customer receives positive cash flow. The solar water heating system installations are financed by ratepayers.

The HCEI Agreement expands the "pay as you save" program by an additional 2,500 solar water heating system installations statewide per year above the existing SSP Program[8]. The target number of annual statewide installations for the existing SSP Program is currently 200; thus, the program is envisioned to expand by 13.5 times[9].

Of the 2,500 additional expanded SSP Program installations statewide, HECO estimates that 1,850 will be installed on Oahu. Therefore, the total number of annual Oahu installations, including the 100 installations under the existing SSP Program, is 1,950 per year. Each program participant, including program participants added in subsequent years, must be billed monthly for about 12 years after completion of installation.

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[8] HCEI Agreement, Section 4, page 11.

[9] This figure is derived as:

$$\frac{(200 \text{ original SSP Program installations} + 2{,}500 \text{ expanded SSP Program installations})}{200 \text{ original SSP Program installations.}} = 13.5$$

A Program Manager is required to oversee this expansion because of the tremendous growth expected; and complexity and number of entities involved in the full program (customer, landlord, Bureau of Conveyance, Title company, repair maintenance and/or warranty service provider, loan payment tracking by a third party, solar water heating contractors, and HECO's Customer Service Department and Land and Rights-of-Way Division). In order to ensure consistency and continuity for the program, use of contract employment is not an effective answer for this position. Therefore, the SSP Program Manager is a regular HECO position. Costs for this expansion, including the labor cost for the SSP Program Manager, are proposed to be recovered through the existing SolarSaver surcharge. As a result, the addition of this new position has no impact on total test year Customer Service expense.

HECO intends to begin expansion of the SSP Program by the end of 2008 by proposing program modifications under the existing docket (Docket No. 2006-0425, Hawaii's Solar Water Heating Pay As You Save Program). The proposed program modifications would be consistent with the provisions in the HCEI Agreement. Assuming that the Commission approves the program modifications within 45 days, HECO would fill the SolarSaver Pilot Program Manager position by the end of February 2009. HECO has already secured internal approval to fill this position and it is currently in the recruitment process. Attachment 3 is the JVN for this position (posted as Energy Efficiency Program Manager).

Since the labor and non-labor overhead costs associated with the addition of the new SSP Program Manager are proposed to be recovered through the SolarSaver Surcharge, there is no impact on total test year Customer Service expenses. However, there is a reallocation of labor costs among existing DSM programs as discussed below.

As shown in HECO's response to CA-IR-121, the RDLC Program Manager was slated to spend 452 hours during the test year to administer the SolarSaver Pilot Program. However, as stated above, the expanded program requires a full-time program manager. Therefore, the hours that the RDLC Program Manager was to spend overseeing the SSP Program can now be shifted to the RDLC Program as HECO will be increasing its emphasis on enrolling central and split air conditioning households and in new efforts relating to the residential dynamic pricing program and new DSM initiatives to integrate more renewable energy sources on to HECO's grid. For the latter effort, the RDLC Program Manager will be working closely with the Director, Special Projects, on these demand response modifications and/or enhancements.

The impact of reallocating 452 hours away from the SSP Program and into the RDLC Program is shown on page 16. However, since both SSP and RDLC Program labor categories are direct labor, the expenses of which are already included in base rates, there is no impact on total test year Customer Service expense. The changes in RDLC labor and non-labor dollars are reflected in the revised HECO-1020 on page 17.

Customer Service Representative

The Customer Service Representative ("CSR") is a new HECO regular employee who is a billing clerk and is in the Customer Services Department. The duties of the CSR are related to the accurate billing and tracking of participants in the expanded SSP Program. Each new participant in the SSP Program requires a billing clerk to manually place the customer on the new SSP Program rider. In addition, for each SSP Program bill, and on an ongoing monthly basis for 12 years following the completion of installation, a CSR needs to:

- Check to make sure the electric account is still active;
- Match the SSP Program bill, which is printed on a separate page, with the electric bill;
- Remove the "hold" that is placed on the electric bill that ensures that the bill is not sent before it can be matched to the SSP Program bill;
- Once the electric and SSP Program bills are matched, the CSR then has to manually fold, stuff, and mail out the bills.

Just for the expanded SSP Program alone, not including the existing SSP Program, the CSR will have to process 1,850 monthly bills by the end of the first year, 3,700 monthly bills by the end of the second year, and so on. At an estimated 9 minutes per bill, processing 1,850 bills each month will take 16,650 minutes per month, or 277.5 hours. There are only 176 working hours per month.

The above calculations assume manual processing of the SSP Program bills using HECO's existing billing system. HECO has been working with the new CIS software developers to automate the process as an add-on to the original scope. At this point in time, it is not clear if a software modification can be developed in a cost effective and timely manner. Nevertheless, HECO must be ready to comply with provisions of the HCEI Agreement that call for a dramatic increase in the SolarSaver Pilot Program participation and this necessitates a new CSR position while an automated solution is being assessed to determine its feasibility.

HECO is proposing to add the CSR in March 2009 after the assumed approval of the expanded SSP Program in February. HECO also proposes to recover incremental SSP Program costs, including the labor and non-labor overhead costs associated with the CSR through the existing SolarSaver Surcharge. Therefore, there is no impact on test year expenses from the addition of the new CSR position.

The position matrix for HECO's DSM Program has been updated to include the addition of the SolarSaver Pilot Program Manager and the CSR that will process SolarSaver Pilot Program billing. The updated matrix is shown in the revised HECO-1016 on page 18.

Customer Solutions Process Area Headcount

As a result of the HCEI Agreement, the Customer Solutions process area is adding three new positions that were not included in direct testimony: 1) Director, Special Projects, 2) Senior Rate Analyst, and 3) SolarSaver Pilot Program Manager. All three are regular HECO positions. However, the labor and non-labor overhead costs associated with the SolarSaver Pilot Program Manager will be recovered through the SolarSaver Surcharge. Therefore, the number of Customer Solutions Process Area positions increases by two over direct testimony to 50, as shown in the revised HECO-1027 on page 19.

Energy Cost Adjustment Clause

The updated sales estimates necessitated a new production simulation run to develop updated fuel and purchased energy estimates. Mr. Ross Sakuda and Mr. Dan Ching discuss the resulting fuel and purchased power expense estimates in their rate case updates to HECO T-4 and T-6, respectively. The updated ECAF's at present and proposed rates are shown in the revised HECO-1033 on page 20. Calculations for the ECAF at present rates are shown in the revised HECO-1036 on page 21. Calculations for the ECAF at proposed rates are shown in the revised HECO-1037 on pages 22-23.

The updated composite costs of generation for central station at present and proposed rates are shown in the revised HECO-1038 on page 24. A comparison of the composite costs of generation for central station at present rates between the original testimony and the rate case update is shown on page 25. A comparison of the composite costs of generation for central station at proposed rates between the original testimony and the rate case update is shown on page 26.

A comparison of the composite cost of purchased energy at present and proposed rates is shown on page 27. The weighted central station efficiency factor calculations have been updated and are shown in the revised HECO-1039 on page 28.

A comparison of the sales heat rates between the rate case update and direct testimony is shown on page 29.

Lastly, the revised HECO-WP-1036 is shown on pages 30-35, and the revised HECO-WP-1037 on pages 36-38.